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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSALS ONE THROUGH FOUR)	Docket No. RM2013-6

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTICAL PRINCIPLES (PROPOSALS ONE THROUGH FOUR)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider four proposals to change analytical principles relating to the Postal Service's periodic reports. The proposals, labeled Proposal One through Four, are discussed in the attached text.

In addition, the Postal Service requests that the Commission clarify whether it has approved the proposal that the Postal Service filed, in response to a Commission request, in Docket No. ACR2012 on June 26, 2013.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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PROPOSAL ONE

New Formula and Location for Alaska Air Adjustment Factor

Proposal:

This Postal Service proposes a simpler method for calculating the Alaska Air Adjustment Factor. The current formula is contained in library reference USPS-LR-K-36 from Docket No. R2005-1. The proposed formula, including the FY 2012 amounts, is:

$$\text{Alaska Air Adjustment Factor} = \frac{\dfrac{\text{Inter}-\text{SCF VVC}}{\text{Inter}-\text{SCF Pounds}}}{\dfrac{\text{Alaska Non}-\text{Pref Air Costs}}{\text{Alaska Non}-\text{Pref Pounds}}} = \frac{\dfrac{\$874{,}955{,}383}{7{,}052{,}196{,}073\ lb}}{\dfrac{\$131{,}391{,}397}{151{,}694{,}011\ lb}} = \frac{\$0.1241/lb}{\$0.8662/lb} = 0.1433$$

This simpler formula is still the ratio of long-distance attributable unit highway to unit air costs, which is the underlying principle behind the current factor.

In addition, the Postal Service proposes to implement the factor within the Cost Segment 14 model, rather than within the Cost and Revenue Analysis (CRA) model.

Rationale:

The current method for calculating the Alaska Air Adjustment Factor is unnecessarily complex. It uses Department of Transportation data, surface densities, linehaul, and terminal handling costs to compute the ratio of hypothetical highway costs to air costs. Since the current method was established, postal operational data have improved significantly, such that a viable attributable unit highway cost by contract type is now available. Thus, an analogous but more accurate ratio of highway to air costs can be calculated and easily updated annually using the proposed formula.

Referring back to the formula, the source of the numerator is data collected from the Transportation Cost System (TRACS) and relevant costs from Cost Segment 14, and the denominator is supplied by the operational system Surface Air Management System – Alaska (SAMS – Alaska).

Mechanically, mainly for transparency purposes, the proposed change should be implemented within the Cost Segment 14 workbook, rather than in the CRA model, where it would be virtually hidden. This will also remedy a major deficiency of the current method, which is that the attributable costs for component 681 within Cost Segment 14 and the C Report are not equal, because the factor is currently applied outside of Cost Segment 14.

Impact:

Using the proposed formula, in FY 2012 the factor would have been 0.1433, as compared to the current factor of 0.0702, which has not been updated since Docket No. R2005-1. Holding other things constant, the impact of the new factor is that it raises the attribution level for the Non-Preferential Alaska Air network by a factor of 2.0413 (0.1433/0.0702). The following table illustrates the impacts of the new factor:

Attributable Costs ($000)	Alaska Bypass[1]	Alaska Non-Bypass Non-Pref
FY12 – Current	$7,400	$1,824
FY12 – Proposed	$15,105	$3,723

[1]Caculations based on estimated Alaska Bypass Service costs of $105.4 million in FY 2012

The higher factor increases attributable costs for Alaska Bypass Service by $7.7 million and increases the relevant costs for other products by $1.9 million.

PROPOSAL TWO

New Set of Distribution Factors for Alaska Non-Preferential, Alaska Preferential, Hawaii, and Air Taxi Cost Pools in Cost Segment 14

Proposal:

The Postal Service proposes a single set of distribution factors to assign relevant costs from the Non-Preferential Alaska Air, Preferential Alaska Air, Hawaii Air, and Air Taxi cost pools to products. The proposed distribution factors rely on current operational data from the Surface Air Management System (SAMS) – Alaska and data regularly collected by the Transportation Cost System (TRACS).[1] Unfortunately, comparable data is not available for products transported on the Intra-Hawaii and Air Taxi networks; therefore, the information from SAMS-Alaska serves as a proxy for those other networks.

Using Distribution and Routing (D&R) Tag information from SAMS – Alaska, pounds flown on the network are divided into three groups: 1) Alaska Bypass Service, 2) "Air", and 3) "Surface."[2] Since Alaska Bypass Service is now its own product, its pounds are ignored for the purpose of computing a new set of distribution factors for the other products. Separate distribution factors are then computed for the "Air" and "Surface" portions using appropriate TRACS data. The "Air" distribution factors are derived by calculating each product's share of pounds across all TRACS air modes. The "Surface" distribution factors are derived by finding each product's share of cubic-foot miles across all TRACS surface modes. The notation and specific formulae are

[1] The SAMS-Alaska system is used to derive the factors because it contains additional information about the composition of products on the Alaska network.

[2] Of course, the "Surface" group includes pounds transported by air. The group names were chosen to distinguish between proportions estimated on TRACS air and surface modes.

shown below:

Notation

a – air mode
s – surface mode
j – product
lb-dk – TRACS distribution key based on pounds
cuft-mile-dk – TRACS distribution key based on cubic-foot miles
LB – total pounds
CUFT-MILE – total cubic foot miles

$$Air_{LB_J} = \sum_a \left(lb - dk_{aj} \times LB_a\right)$$

$$Air_{LB-dk_j} = \frac{\sum_a \left(lb - dk_{aj} \times LB_a\right)}{\sum_a LB_a}$$

$$Surface_{cuft-mile_J} = \sum_s \left(cuft - mile_{sj} \times CUFT - MILE_s\right)$$

$$Surface_{cuft-mile-dk_j} = \frac{\sum_s \left(cuft - mile_{sj} \times CUFT - MILE_s\right)}{\sum_s CUFT - MILE_s}$$

Lastly, a final set of distribution factors is calculated by weighting the air pounds and the surface cubic foot-miles by their respective control totals. These final factors are applied to the relevant costs in the Alaska Air, Hawaii Air, and Air-Taxi cost pools.

$$lb - dk_j = \frac{\left(Air_{LB-dk_j} \times Air\ Pounds\right) + \left(Surface_{cuft-mile-dk_j} \times Surface\ Pounds\right)}{Air\ Pounds + Surface\ Pounds}$$

__**Rationale:**__

Alaska and Hawaii do not have contiguous highways, and Air Taxi service is purchased mainly for remote areas not regularly serviced by the Postal Service's major air contractors. Thus, these networks transport products by air that in other domestic locations travel by surface, and therefore a separate, single set of easily updatable set distribution factors makes sense for these cost pools. A single set is appropriate also because the costs are minimal.[3]

The primary advantage of the proposal over the existing method is that it uses current data, and so it computes distribution factors that align with the current product lists. The frequent modifications made to the product lists in recent years make it challenging to adjust distribution factors developed based on historical special studies to the current product lists. For example, products like First Class Package Service and Standard Post did not exist when the Docket No. R97-1 special studies that underlie the Alaska and Hawaii cost pools were approved, so costs for these products are presently assigned based on assumptions that employ proxies and ratios.

The proposal also remedies an inaccuracy in the distribution of Air Taxi costs. The cost driver for Air Taxi costs is pounds, and its costs are currently distributed to products by an aggregate cost weighted distribution from the other air cost pools. Due to the large share of FedEx Day costs (75 percent), the current method is largely based on the distribution of cubic feet on the FedEx Day network. This is incorrect, because the cost driver for the Air Taxi network is pounds, not cubic feet. Products have disparate densities, so the cost driver is the critical element in determining the relative proportions. The proposed method properly uses pounds but also treats all air pounds equally, regardless of network.

<u>Impact:</u>

The following table shows the impact of the proposed set of distribution factors on the FY 2012 proportions.

[3] The relevant amounts in these pools (Alaska Non-Preferential $4 million, Alaska Preferential $34 million, Hawaii Air $55 million, and Air-Taxi $36 million) do not warrant separately regularly sampling these networks on a quarterly or annual basis.

PRODUCT		ALASKA	ALASKA		AIR
MARKET DOMINANT PRODUCTS	PROPOSED	NON PREF	PREF	HAWAII	TAXI
FIRST CLASS MAIL	FY12	FY12	FY12	FY12	FY12
SINGLE PIECE LETTERS	.07436	.00667	.05560	.21020	.03899
SINGLE PIECE CARDS	.00128	-	.00115	.00339	.00057
PRESORT LETTERS	.15801	-	.04471	.03542	.11238
PRESORT CARDS	.00547	-	.00035	.00123	.00346
SINGLE PIECE FLATS	.04571	.00304	.04542	.14635	.02961
PRESORT FLATS	.01873	-	.00367	.00647	.01168
PARCELS	.01490	.00178	.03652	.00519	.01318
TOTAL FIRST CLASS	.31846	.01149	.18742	.40825	.20987
STANDARD MAIL					
HIGH DENSITY AND SATURATION LETTERS	.00072	.00071	.00012	.00006	.00001
HIGH DENSITY AND SATURATION FLATS & PARCELS	.00182	.00092	.00016	.00001	.00001
CARRIER ROUTE	.00848	.02804	.00504	.00205	.00028
LETTERS	.03334	.01375	.04522	.02143	.00271
FLATS	.02623	.01210	.06522	.02302	.00360
PARCELS	.00231	.00135	.01548	.00024	.00049
TOTAL STANDARD MAIL	.07290	.05687	.13124	.04681	.00710
PERIODICALS					
IN COUNTY	-	-	-	-	-
OUTSIDE COUNTY	.03830	.00934	.06543	.05980	.00752
TOTAL PERIODICALS	.03830	.00934	.06543	.05980	.00752
PACKAGE SERVICES					
BOUND PRINTED MATTER FLATS	.00317	.00138	.00798	.00188	.00044
BOUND PRINTED MATTER PARCELS	.00592	.00488	.02021	.00035	.00083
MEDIA AND LIBRARY MAIL	.01782	.00688	.00238	.00076	.00335
TOTAL PACKAGE SERVICES	.02691	.01314	.03057	.00299	.00462
USPS MAIL	.00801	.01078	.00037	.00117	.00989
FREE MAIL -BLIND HANDICAPPED & SERVICEMEN	.00130	-	-	.00004	.00108
TOTAL DOMESTIC MARKET DOMINANT MAIL	.46588	.10162	.41503	.51906	.24008
TOTAL DOMESTIC COMPETITIVE PRODUCTS[1]	.48562	.89838	.58086	.46044	.68180
INTERNATIONAL MAIL	.04850	-	.00411	.02050	.07812
ATTRIBUTABLE COSTS ($000)		$ 3,723[2]	$ 33,913	$ 54,602	$ 35,622

[1] Includes Single Piece Parcel Post which was renamed Standard Post and moved to the competitive product list in January 2013.
[2] Calculated using the proposed Alaska Adjustment Factor from Proposal One. With the existing factor, the attributable cost for Non-Bypass products is $1,824.

PROPOSAL THREE

New Set of Distribution Factors for Highway and Plant Load Cost Pools in Cost Segment 14

Proposal:

The Postal Service proposes a proxy set of distribution factors to assign relevant costs to products from the Highway Plant Load and Rail Plant Load cost pools in Cost Segment 14. Plant Load contracts are often used in lieu of Inter-NDC contract transportation. Hence, this proposal computes a product's distribution factor by taking the ratio of its Inter-NDC distribution factor to the sum of Inter-NDC distribution factors over all Plant Load eligible products. The specific formula is illustrated below.

Notation:

j – eligible product
(all products within First Class Presort, Periodicals, Standard Mail, and Priority)

dk – distribution key

$$Plant-Load_{dk-j} = \frac{Inter-NDC_{dk-j}}{\sum_j Inter-NDC_{dk-j}}$$

Rationale:

The current distribution factors used to assign costs for products transported on highway and rail plant load contracts were last updated by special studies litigated in Docket No. R2005-1. The product lists have undergone significant changes since then, and as the table below illustrates, the corresponding attributable costs have decreased dramatically. Rather than replicating expensive special studies, it is more sensible to use a proxy set of distribution factors that can be updated quarterly to assign relevant costs to products.

Plant Load Type	FY12 Attributable Costs ($000)	FY04 Attributable Costs ($000)
Highway	$15,539	$27,195
Rail	$2,509	$4,617

Plant Load contracts provide one-way transportation from a mailer facility that generally bypasses one or more postal facilities. Operational experts have confirmed that Highway and Rail Plant Load contracts predominantly transport First Class Presort, Periodicals, Standard Mail, and Priority Mail, and that mail on these networks would likely otherwise be inducted at an NDC facility. Thus, an Inter-NDC proxy limited to the products that commonly use the network is a reasonable and rational method of assigning these costs to products.

Proxies are currently used in Cost Segment 14 for small cost pools with a larger cost pool that is regularly updated by TRACS. Inland Water costs (FY 2012 attributable costs of $11.9M), for example, are assigned in the same proportions as Intra-SCF highway costs, which are updated quarterly by the Transportation Cost System (TRACS).

Impact:

The following table shows the impact of the proposed set of distribution factors on the FY 2012 proportions.

PRODUCT	PROPOSED	HIGHWAY PLANT LOAD	RAIL PLANT LOAD
MARKET DOMINANT PRODUCTS			
FIRST CLASS MAIL	FY12	FY12	FY12
SINGLE PIECE LETTERS	.00000	.00496	.00000
SINGLE PIECE CARDS	.00000	.00000	.00000
PRESORT LETTERS	.09459	.08017	.00000
PRESORT CARDS	.00116	.00001	.00000
SINGLE PIECE FLATS	.00000	.00227	.00000

PRESORT FLATS	.01036	.00908	.00000
PARCELS	.00000	.00131	.00000
TOTAL FIRST CLASS	.10611	.09780	.00000
STANDARD MAIL			
HIGH DENSITY AND SATURATION LETTERS	.00098	.00139	.00000
HIGH DENSITY AND SATURATION FLATS & PARCELS	.00160	.00175	.00000
CARRIER ROUTE	.04596	.05377	.00000
LETTERS	.25545	.20752	.05430
FLATS	.22571	.18327	.06637
PARCELS	.02618	.02052	.02943
TOTAL STANDARD MAIL	.55588	.46822	.15010
PERIODICALS			
IN COUNTY	.00000	.00000	.00000
OUTSIDE COUNTY	.20253	.19437	.84933
TOTAL PERIODICALS	.20253	.19437	.84933
PACKAGE SERVICES			
SINGLE PIECE PARCEL POST	.00000	.00037	.00000
BOUND PRINTED MATTER FLATS	.00000	.00543	.00048
BOUND PRINTED MATTER PARCELS	.00000	.01924	.00009
MEDIA AND LIBRARY MAIL	.00000	.00050	.00000
TOTAL PACKAGE SERVICES	.00000	.02554	.00057
USPS MAIL	.00000	.00020	.00000
FREE MAIL -BLIND HANDICAPPED & SERVICEMEN	.00000	.00000	.00000
TOTAL DOMESTIC MARKET DOMINANT MAIL	.86452	.78613	1.00000
TOTAL DOMESTIC COMPETITIVE PRODUCTS	.13548	.21387	.00000
INTERNATIONAL MAIL	.00000	.00000	.00000
ATTRIBUTABLE COSTS ($000)		$ 15,539	$ 2,509

PROPOSAL FOUR

Change in Canada Air Transportation Costing Methodology

Proposal:

The Postal Service proposes to revise its costing methodology for Air Transportation of Outbound products to Canada. This will affect primarily Canada's Air Transportation costs and measured Contribution in the Booked version of Reports, and to a lesser extent in the Imputed version of Reports. Specifically, the Postal Service proposes benchmarking changes to Imputed Reports.xls and Reports (Booked).xls that will bring the reported International Transportation costs by Product and Country into agreement between each. The changes will preserve the calculation of diversion of Outbound Canada Air Mail to Highway Transportation and eliminate the shift in costs between Canada and the rest of the world during the "Booking" process. The General Ledger Account totals will continue to be exactly honored in Reports (Booked), but a higher degree of confidence in the accuracy of the results obtained for Canada's International Transportation costs in the Booked Reports will be achieved.

The exact changes proposed are detailed in the "Mechanics" section below with reference to the non-public Excel file "Attachment 1.xls" filed under seal. Briefly, a change is proposed in Imputed Reports so that Canada's combined Air and Air Diverted to Highway costs, together with the Air Transportation costs for the rest of the world, are benchmarked to a combination of General Ledger Air and Surface Purchased Transportation Accounts. These results are then proposed to be used by Reports (Booked) without further change.

Rationale:

Prior to the FY 2008 ICRA, CS14 International Air Transportation Accounts were used to Benchmark ICRA Outbound Airmail Transportation costs and CS14 International Surface Transportation Accounts were used to Benchmark ICRA Outbound Surface Mail Transportation costs. With the discontinuation of Outbound Surface Products effective May 2007, there were no longer any imputed Outbound Surface Transportation costs to benchmark, although there were still some costs reported in the CS14 Purchased Surface Transportation Accounts. This was the expected consequence of the lag between dispatching mail, receiving invoices for the transportation, and making the payments. The amounts were relatively small, and expected to diminish with time. In order that the "Booked" ICRA fully reflect identified costs reported in the CRA and General Ledger, the residual costs from the CS14 International Surface Transportation Accounts were combined with those from the Air Transportation Accounts and used to Benchmark the ICRA's Imputed Air Transportation costs.

The relatively small CS14 Purchased International Surface Transportation costs persisted after 2008 through the most recent FY 2012 ICRA. After submission of the FY 2012 ICRA it was observed that the residual CS14 Purchased International Surface Transportation costs are approximately equal to the ICRA's Imputed costs for Outbound Canada Air Mail Diverted to Highway Transportation.

It was then realized that Canada's International Transportation costs for Outbound Air Mail that is diverted to Highway Transportation, once obscured by International Surface Transportation costs associated with Outbound Surface Mail, have become discernible with the elimination of Outbound Surface Mail Products. This Proposal represents a methodological change intended to make use of that information to enhance the ICRA.

Impact:

The non-public Excel file “Attachment 2.xls” filed under seal displays: 1) the comparison between the FY 2012 Imputed version as filed in USPS-FY12-NP2 (Revised 2-8-13) and the proposed methodology, and 2) the comparison between the FY12 Booked version as filed in USPS-FY12-NP2 (Revised 2-8-13) and the proposed methodology.

Comparisons are presented for the A and B Pages, for Market Dominant and Competitive Products, for Imputed and Booked Reports, between the FY 2012 versions filed in USPS-FY12_NP2 (Revised 2-8-13) and what those versions would have been under the current proposal. There are 8 tabs from the proposal version and the corresponding 8 tabs from the FY 2012 ACR for comparison.

All cells in the tabs from the current proposal that differ from the corresponding cells from the FY 2012 ACR by more than an absolute amount of 0.001 and where that difference is more than 1% of the FY 2012 value are shaded red/violet. In addition, all such changes are tabulated in the <Impacts> tab which summarizes the identity of the cell, its value in the FY 2012 ACR, its value under the current proposal, and the absolute and percentage differences. There are a total of 17 tabs in Attachment 2.

Mechanics:

Attachment 1 consists of sixteen tabs. With the exception of the <Summary> tab, the tabs progress from left to right to illustrate the current calculations involved in producing the Imputed and Booked International Transportation costs, and the variations in those calculations that are proposed here.

The process begins with Air Transportation Payments data. The <Int Tran Air Payments> of Attachment 1 shows the FY 2012 data after aggregation to Canada and Rest-of-World. The EDW extract that is processed consists of a voluminous history of payments containing more dimensions than shown on the <Int Tran Air Payments> tab, including specific destination countries. The other dimensions are not necessary for the ICRA calculations, and, as the current proposal involves changes specific to Canada only, the remaining countries are shown only in the aggregate.

The Purchased International Transportation data is processed to develop FY average costs per kg for Air Mail originating in the US by destination country and for the following Mail Classes: Air LC/AO, Air M-Bags, Air Parcel Post, Express Mail, International Surface Airlift LC/AO, and International Surface Airlift M-Bags. That calculation is shown on the <Int Tran Air Cost per kg> tab. The costs per kg shown for Canada are those used by the ICRA. The costs per kg shown for Rest-of-World represent weighted averages of non-Canada values in the Purchased International Transportation data. These are not used by the ICRA, as the underlying country-specific values are used instead.

The next tab, <Outbound Airmail kg>, shows the Outbound weights by ICRA Product. On this and subsequent tabs, the following abbreviations are used to identify the ICRA Products:

alc – Air Letters

acd – Air Cards

fcmi_ltr – First Class Mail International Letters

pmi_env – Priority Mail International Envelopes

pmi_par – Priority Mail International Parcels

gxg – Global Express Guaranteed

aip – International Priority Airlift

amb – Air M-Bags

isl – International Surface Airlift

imb – International Surface Airlift M-Bags

acp – Air Parcel Post

ems – Express Mail International

With the exception of EMS, the weights shown are provided by SIRV/O, and have been adjusted for consistency with the RPW Report. EMS data is from a separate source and is also consistent with the RPW Report. The Canada subtotals to the right of the EMS weights are involved in the calculation of Canada Air Mail amounts diverted to Highway Transportation, and are discussed below.

The < Canada Highway Attributes> presents a collection of attributes of Canada Air Mail that is diverted to Highway Transportation. Operations provides total weights of broad categories of mail leaving International Service Centers (ISCs) destined for Canadian entry points, and also the weights that are dispatched by Truck rather than by Air. From this data the separate fractions of ISAL and non-ISAL Air Mail that are diverted to Truck are calculated and presented, as well as the fraction of diverted Air Mail that is Letter-post as opposed to Parcel Post. In addition to those fractions, the Trans-border Trucking cost per cubic foot from a previous study is presented, as well as densities (Pounds/ft^3) for various classes of Mail. These parameters together with the Canada subtotals referenced in the previous paragraph are used to calculate the amounts of Canada Air Mail diverted to Highway, by Product.

The “Canada Air Diverted to Highway” line on the next tab, < Airmail Diverted to Highway> shows the calculations by Product for the amounts of Outbound Canada Air Mail that are diverted to Highway Transportation, by Product. EMS and GXG are transported exclusively by Air. The amounts of other Products that are transported by Air are simply the original weights minus the weights diverted to Highway Transportation. The rest of the world is unaffected, as the Trans-border Highway Transportation is exclusively to Canada.

The < Air and Surface Trans Costs> tab shows the calculated Air and Highway Transportation costs by Outbound Product, for Canada and the rest of the world. For Canada, the Air Transportation costs by Product are simply the product of the Air Mail weights shown in the < Airmail Diverted to Highway> tab and the appropriate cost per kg from the < Int Tran Air Cost per kg> tab. The weighted average costs per kg from the < Int Tran Air Cost per kg> are not used for the rest of the world, but, rather the country-specific values derived from the Purchased Air Transportation data are applied to the country-specific weights. The resulting costs by Product for the rest of the world are then aggregated and presented in the “Rest-of World Air” line of the < Air and Surface Trans Costs> tab.

The Highway Transportation costs for Outbound Canada Mail are shown on the "Canada Air Diverted to Highway" line of the < Air and Surface Trans Costs> tab. They are derived by multiplying Canada's diverted weights from the < Airmail Diverted to Highway> tab by the Trans-Border Truck cost per cubic foot from the < Canada Highway Attributes> and dividing by the Product density from the same tab.

Also shown on the < Air and Surface Trans Costs> tab immediately to the right of the calculated Transportation costs by Product are totals for Imputed Air Transportation costs in the ICRA to this point. They are separated into ISAL and non-ISAL to reflect the structure of the CS14 Purchased International Transportation Account totals. Some of the International NSA costs are included in these Imputed results and some are not. The International NSA Transportation costs that are not accounted for inside the ICRA come from the ICM Costing Module and are shown in the next set of boxes to the right. At the far right is the grand total of all Imputed International Air Transportation costs to this point. A lower set of boxes carries the Imputed Highway Transportation costs to Canada, separated into ISAL and non-ISAL.

The totals described above are used to calculate separate adjustment factors for ISAL and non-ISAL for application to all country and country group International Air Transportation costs in order to bring them into alignment with the CS14 Purchased International Transportation Accounts. The target figures are shown on the <Benchmarks> tab. For International Air Transportation the control target is the figure shown in cell C11. It consists primarily of Account 53201 – International Air Transportation – Civilian, but, as explained in the RATIONALE section above, the small residual International Surface Transportation Accounts are included. The Target figure for ISAL International Air Transportation costs is shown in cell C13, and consists entirely of Account 53212 – International Transportation – Surface Airlift.

The <Adjustment Factors> tab shows the calculation of the factors to apply to the International Air Transportation costs across countries and Outbound Air Products in order to adjust them to honor the CS14 Purchased International Transportation Account totals. The calculations are made so that only the Imputed International Air Transportation costs inside the ICRA need be adjusted; the external additive International NSA costs in the ICM Costing Module are not included in the adjustments.

The <Adjusted Intl Transportation> tab shows the adjustments made to Air Transportation costs to tie to the CS14 Purchased International Transportation Accounts. “Canada Air Diverted to Highway” and “Rest-of-World Air” costs by Product from the first pass calculation of costs on the <Air and Surface Trans Costs> tab are multiplied by the appropriate adjustment factor from the <Adjustment Factors> tab, depending on whether the Product is ISAL or non-ISAL. The “Canada Air Diverted to Highway” costs are retained from the first pass calculation of costs on the <Air and Surface Trans Costs> tab. The same totals to the right as were described for the < Air and Surface Trans Costs> tab are also calculated. Immediately below the rightmost grand totals box the difference between the grand totals and the Benchmark targets are shown for ISAL and non-ISAL. The differences are zero.

The Imputed International Highway Transportation costs are added to the adjusted International Air Transportation costs described above. These results represent the final International Transportation results reported in the FY 2012 ICRA’s Imputed Reports.

A final series of processing steps is performed in order to produce the International Transportation Costs reported in Reports (Booked). The objective in Reports (Booked) is to ensure that all costs and revenues are "Booked"; that is, tied to official General Ledger Account totals. Because there is no Account identified as uniquely representing Highway Transportation costs to Canada for mail diverted from Air Transportation, and to avoid leaving the Imputed Truck Costs unbenchmarked, the diversion to Highway calculation is omitted and Canada's imputed Air Transportation costs without diversion are used in the benchmarking.

The < Intl Trans Without Diversion> shows the Imputed International Transportation costs by Product for Canada and the rest of the world if all of Canada's Outbound Air Mail were transported by Air, and none of it were diverted to Highway. These results are comparable to the first pass Imputations on the < Air and Surface Trans Costs> tab, except there are no International Highway costs.

The calculation of adjustment factors to produce the International Transportation results for Reports (Booked) is shown on the < Booked Factors> tab. The same Benchmark targets are used, and the calculations are identical to those performed on the < Adjustment Factors> tab. Neither set of calculations involved Highway Transportation costs, and the only difference is that <Booked Factors> uses Canada's International Air Transportation costs without any diversion to Highway Transportation.

The < Booked Intl Transportation> tab shows the results obtained when the Imputed International Air Transportation costs from < Intl Trans Without Diversion> are multiplied by the factors from the <Booked Factors> tab. The grand totals for the Booked International Transportation costs are again shown in the right-most box, including the additive costs from the ICM Costing Module. Differences from the Benchmark targets are again shown below. This time there is a small non-zero mistie, but only because for the FY 2012 ICRA, ISAL was inadvertently left as the Adjusted Imputed result in Reports (Booked).

These results obtained for Reports (Booked) possess two undesirable features. First is the elimination of Imputed International Surface Transportation of Outbound Canada Air Mail diverted to Truck. Data from Operations confirms that the diversion is currently active. Second is that, due to the greater Air Transportation costs imputed for Outbound Air Mail Products to Canada when there is no diversion to International Surface Transportation, Canada's share of total International Transportation costs increases in Reports (Booked) relative to Imputed Reports. This increase in Canada's share of International Transportation costs is believed to be merely an artificial artifact of the current Booking methodology.

The Postal Service proposes an alternative methodology that preserves the existing calculations for diversion of Outbound Canada Air Mail Transportation to trans-border Highway Transportation. The primary change proposed is to the adjustment process that currently produces the Imputed Reports. The current adjustment process is illustrated on the <Adjustment Factors> and <Adjusted Intl Transportation> tabs, and has been discussed above.

The <Proposed Adjustment Factors> tab shows the proposed calculations for the factors to be applied to the first pass Imputed costs shown on the <Air and Surface Trans Costs> tab to produce the International Transportation costs reported in Imputed Reports. The goal is include the Imputed Surface Transportation costs in the costs that are tied to the CS14 Purchased Transportation Costs shown in the <Benchmarks> tab. The only change to the calculated factors is that the Imputed Truck Costs in <Air and Surface Trans Costs> are now included in the denominators of the factors.

The factors are applied to the first pass imputed costs in the <Air and Surface Trans Costs> as before, except now they are also applied to the imputed Surface Transportation costs. Those calculations are shown in the <Proposed Adjusted Intl Trans> tab. The grand totals are again shown in the right-most box, but this time they include the adjusted imputed International Surface Transportation costs. As can be seen immediately below the right-most box, the totals agree exactly with the CS14 Purchased International Transportation totals from <Benchmarks>. These results are proposed for reporting in Imputed Reports.

Because of the exact agreement between International Transportation costs in Imputed Reports and the CS14 benchmarks, it is proposed that these results simply be passed through to Reports (Booked) without further change for reporting. This is reflected in the results shown on the <Proposed Booked Intl Tran> tab.

Comparisons of total International Transportation Costs for Canada and the rest of the world before and after the proposed change in methodology are presented in the <Summary> tab. The first pass Imputed results from the <Air and Surface Trans Costs> tab are shown in column B. The current adjusted results that correspond to those in Imputed Reports are shown in Column C. The grand total for Column C is greater than the CS14 total shown in column H because the Imputed Truck costs are currently external to the benchmarking. That is because the benchmarking was considered to involve Air Transportation exclusively.

The results for the current Booked Reports are shown in column E of the <Summary> tab. The primary feature to note is the greater share of International Transportation costs displayed for Canada. This is due to the benchmarking of Air Transportation costs with no diversion to Highway Transportation (the costs shown in column D), which contain significantly higher costs for Canada.

The results for Imputed Reports and Booked Reports that would be obtained with the current proposal are shown in columns F and G, respectively. They are identical and both tie exactly to the CS14 Purchased International Transportation Account totals. In addition, they preserve the diversion of International Transportation of Outbound Canada Air Mail from Air to Highway, and exhibit distributions of International Transportation costs between Canada and the rest of the world that are very similar to the first pass imputations and the results presented in the current Imputed Reports.